AR60

1998 Annual Report

Corporate Highlights

	1998	1997
Operations		
Natural gas production (mmcf)		
Total	924.7	823.9
Daily average	2.53	2.43
Average natural gas price ($/mcf)	1.86	1.78
Total oil production (bbls)	19,382	10,863
Average crude oil price ($/bbl)	16.16	21.79
Total production (boed)	306	290
Natural gas reserves (bcf)	16.32	10.69
Crude oil reserves (mbbls)	316	249
Financial		
Revenue	$2,512,966	$2,338,131
Cash flow from operations	$ 914,332	$ 959,232
Per share	$ 0.057	$ 0.080
Net earnings	$ 17,981	$ 242,809
Per share	$ 0.001	$ 0.020
Convertible debentures	$ 330,000	$ 330,000
Shareholders' equity	$3,750,368	$3,813,657
Common shares outstanding		
At year end	15,763,173	16,165,173
Weighted average	15,965,715	11,913,128
Share Performance		
High ($)	0.32	0.35
Low ($)	0.16	0.15
Close ($)	0.20	0.28
Volume	1,305,578	1,596,652

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

president's message

Ramarro Resources Inc. exited fiscal 1998 having made progress during a year of severe downturn in the energy industry. The Company's financial position was excellent including cash flow of $914,332, which represents a slight decrease of 4.7%, low debt ratio and projections of stable cash flow due to long-term gas reserves. Ramarro's ability to weather the low oil prices that impacted the industry so severely over the past year is directly related to a conservative management style. Ramarro maintains a low leverage position and moderate expansion activities. This has paid off in good financial and operational results this year.

The Company's 83% weighting to natural gas production will continue to limit the impact of low oil prices.

Daily net production increased 5.5% to 306 boed, which was weighted 83% to natural gas. Further production increases just after the September 30, 1998 year end, increased production to 350 net boed. These increases were primarily from additions made by drilling at Cessford and the acquisition of interests in the Company's core areas. These development and acquisition programs are an extension of management's prime objective, generating greater value for its shareholders without unduly exposing the Company to risk.

Development projects continued to focus on Cessford, Alberta where a Ramarro operated drilling program consisting of 17 gas wells was completed in the fourth quarter. Increased production rates due to these wells will improve our first quarter results in fiscal 1999.

Exploration made significant progress in 1998 with a second discovery well in the Orion area of B.C. which flowed natural gas under test. Ramarro has a 20% initial interest in the well and 10% after payout and in large land holdings in the area.

In November 1997 the Company established a normal course issuer bid on the Alberta Stock Exchange to purchase up to 650,000 shares. Ramarro purchased 402,000 shares under this bid for a total cost of $81,270. This action was undertaken to stabilize the trading price of the shares and to increase the net asset value per share. These shares represented one of the best investments available to Ramarro in terms of cash flow and boed per share.

By operating more than 90% of production, Ramarro maintains control over costs, technology development and marketing.

As we look to the coming year, Ramarro is well positioned to take advantage of a recovery in the energy industry. The average natural gas price is expected to improve substantially during fiscal 1999 and, while indications are for volatile oil prices, the Company's high ratio of gas production will limit any financial impact. The Company has a stable base of production, and a diversified portfolio of properties with long-life reserves. Cash flow from these properties will enable Ramarro to fund an active exploration and development program in 1999.

Growth areas for natural gas include Cessford in central Alberta where development projects are expected to add net volumes of 360 mcfd in fiscal 1999. Oil production at Oak is expected to double following commencement of a waterflood in August 1998, and additional increases are projected from a waterflood planned for Webb, Saskatchewan.

Management of Ramarro remains convinced that the intermediate term outlook for North American gas markets is very positive. The market for natural gas has become a continental arena. The addition of pipeline capacity out of western Canada has eliminated the artificial backup of gas into the area and made Alberta part of the continental marketplace. Depressed wellhead prices due to transportation constraints are part of the past. Alberta loses 15 to 20% of its capacity due to reserve declines each year. The American producers experience the same problem. This means that the industry requires very active drilling programs in all of North America to simply maintain capacity. Gas is primarily a pipelined commodity and cannot be replaced in any significant quantity from other areas of the world. Clean air and greenhouse gas concerns make natural gas or methane the fuels of choice when compared to other fossil fuel sources.

At this time we would like to acknowledge the contributions of our Chief Financial Officer and one of the co-founders of Ramarro, Mr. G. Donald Meades, who retired as an Officer of the Company in December. Ramarro's financial growth has been guided by Don since inception in 1984. The Company's strong financial statements and efficient administrative operations have been the result of his skills. He will remain a Director of the Company. We wish to thank him for his service to Ramarro over the years and wish him well in his retirement.

We also wish to thank the rest of the Ramarro staff for their enthusiastic and dedicated contributions to the Company's growth.

On behalf of the Board of Directors

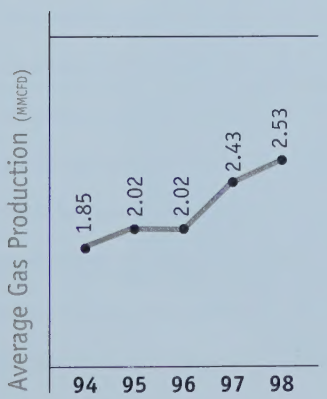
Wayne Sharp
President
January 15, 1999

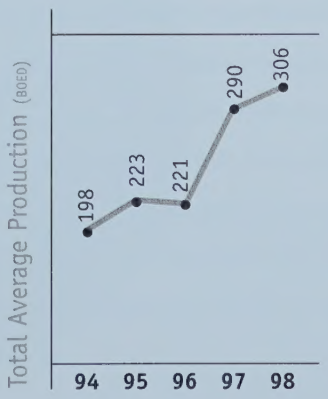
PIPELINE CONSTRUCTION IN THE CESSFORD NORTH FIELD DURING SEPTEMBER 1998 USING A TECHNIQUE OF PLOWING IN PLASTIC LINE WHICH IS BOTH COST AND ENVIRONMENTALLY EFFECTIVE.

operations review

Ramarro Resources Inc. has operations based in the three western provinces where it participates in 401 producing wells, 93% of which are operated by Ramarro. The Company is operator/manager for eight properties under Ramarro-sponsored drilling funds, while other projects include only industry partners. By acting as operator/manager, Ramarro is able to control costs, implement technology which has been developed in past Ramarro operations, control the timing of development, and market production to the Company's best advantage. This also allows the Company to generate revenue from operating fees charged to project partners which partially cover the cost of maintaining a competent staff with experience in all the required disciplines of the industry.

The Company operates 93% of its 401 producing wells and specializes in shallow gas production.





Natural gas reserves with a life expectancy in excess of 20 years ensure a stable source of production and cash flow.

Production

Net daily production increased 5.5% to 306 boed from 290 boed in fiscal 1997. Natural gas production averaged 2,534 net mcfd. An additional 365 net mcfd was brought onstream in October 1998 with a further net increase of 210 mcfd through acquisitions at the same time. A further 360 mcfd is scheduled to be onstream in fiscal 1999 as a result of upcoming drilling programs. In fiscal 1999 Ramarro is projecting a natural gas production exit rate of 3,000 net mcfd. The average gas price in fiscal 1998 was $1.86/mcf, up 4.4% from $1.78 in 1997.

Daily net oil production averaged 53 bopd in fiscal 1998. Ramarro's oil price was $16.16 compared to $21.79 in fiscal 1997 reflecting industry-wide oil pricing problems. The Company's net oil production is expected to increase to 70 bopd in 1999.

Drilling and Acquisitions

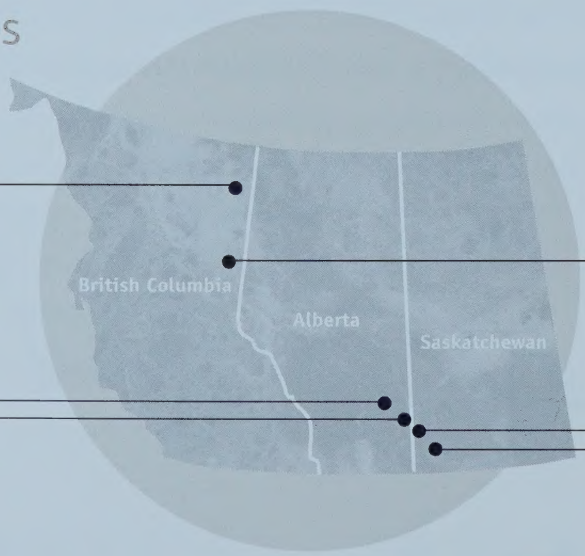
In fiscal 1998, Ramarro participated in 18 wells (4.8 net), of which 17 were operated by the Company. The overall success rate was 100%. In the upcoming year Ramarro expects to increase its drilling activity by 10%. During the year, Ramarro increased its interests in core properties, principally at Cessford, Hilda and Webb. Subsequent to year end, the Company increased its interests at Cessford and Hilda with the immediate impact being the addition of 210 mcfd.

Principal Properties

ORION
- SECOND DISCOVERY WELL DRILLED
- TESTED GAS FROM 200 – 700 MCFD

CESSFORD
- CESSFORD EAST – 71 WELLS, TOTAL CAPACITY 2,225 MCFD
- CESSFORD WEST – 25% INTEREST IN 45 GAS WELLS, TOTAL CAPACITY 1,500 MCFD
- CESSFORD NORTH – 50 PRODUCING GAS WELLS , 20 – 40% INTEREST PLUS 17% INTEREST

HILDA
- 158 PRODUCING GAS WELLS, 50 TO 67% INTEREST
- MATURE DEVELOPMENT WITH VERY LOW DECLINE RATES



OAK
- 15 PRODUCING OIL WELLS WITH 4 – 20% INTEREST
- TOTAL PRODUCTION CAPACITY 394 BOPD, PROVEN RESERVES 3,694,000 BBLS
- 4 PRODUCING GAS WELLS, INTERESTS OF 4 – 25%

HATTON
- OPERATES 16 OF 21 WELLS, CURRENT CAPACITY 1,300 MCFD
- AVERAGE WORKING INTEREST IS 20.03%

WEBB
- 7 PRODUCING OIL WELLS, AVERAGE WORKING INTEREST 70.9%
- PRODUCTION INCREASES ARE ANTICIPATED IN 1999

Gas Production

HATTON

Ramarro operates 16 of its 21 wells in the Hatton shallow gas project in southwestern Saskatchewan. Production comes from the Milk River, Medicine Hat and Second White Specks zones. Current production capacity is 1,300 mcfd from wells with a life expectancy in excess of 20 years. Ramarro's average working interest is 20.03%. Gas sales are under a long-term gas contract with TransCanada Gas Services. The property has been fully developed including rationalization of facilities. Proven producing recoverable reserves total 4.69 bcf (net 0.92 bcf).

CESSFORD EAST

Ramarro operates the Cessford East property which consists of 71 wells. The productive zones are the Milk River and Medicine Hat formations. Drilling was completed on seven of these wells in August 1998 and production was initiated October 1, 1998. Total productive capacity is now 2,225 mcfd. The reserve life exceeds 20 years and proven producing reserves total 9.13 bcf (net 0.86 bcf). This project is now fully developed.

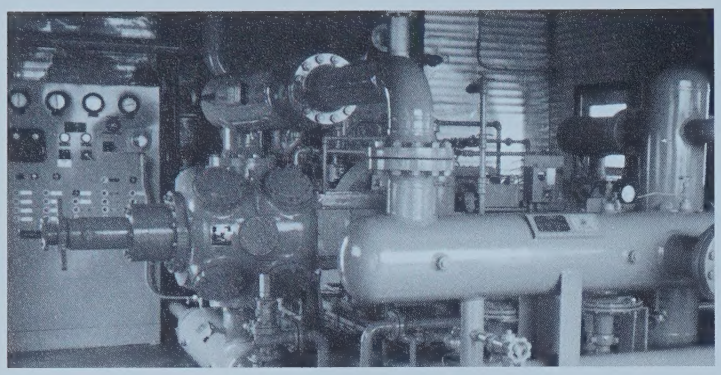
CESSFORD WEST

At Ramarro-operated Cessford West, the Company holds a 25% working interest in 45 producing shallow gas wells. These wells produce from the Milk River and Medicine Hat zones. Productive capacity totals 1,500 mcfd, while daily contract volumes averaged 1,330 mcfd in 1998. The property has a long reserve life exceeding 20 years and proven producing reserves total 5.72 bcf (net 1.43 bcf). Development plans have focused on field optimization and in the past summer wells were worked-over to yield substantial rate increases. The remedial work has offset the normal field decline.

Net natural gas production is targeted to increase 18% to 3,000 mcfd in fiscal 1999.

CESSFORD NORTH

Cessford North is Ramarro's most active development area which saw production increases through infill drilling, as well as encouraging results from step-out wells to extend the play. Ramarro operates 50 producing gas wells with interests ranging from 20 to 40%, plus an additional 17% interest through its share ownership in Texada Energy Ltd., which owns the balance of the working interest. Production is taken from the Milk River and Medicine Hat zones. In August 1998 Ramarro drilled 10 wells which came on production in October 1998 adding 800 mcfd (net 320 mcfd). Proven producing reserves of 9.53 bcf (net 3.49 bcf) are projected to be recovered over the next 20 years. Ramarro plans to drill 32 more wells during the next three years to complete the development of its holdings of 5,120 acres in the area. During the past year Ramarro purchased an additional 960 acres at Crown sales. In 1999, net production increases are targeted to be 360 mcfd.



SHALLOW GAS FIELD COMPRESSOR IN THE HATTON FIELD WHICH IS TYPICAL OF RAMARRO'S PRODUCTION OPERATIONS.

Gas Production – continued

HILDA

Ramarro operates 158 producing Milk River/Medicine Hat gas wells with Company interests ranging from 50 to 67%. Production rates per well are relatively low, however, the productive capacity of the area totals 2,230 mcfd. Proven producing reserves total 10.29 bcf (net 5.98 bcf). The project is in the mature stage of development and has demonstrated very low decline rates (under 4%) in the past three years. Field optimization is underway to improve the productivity and lower costs of the project.

OAK

Ramarro participates in four producing gas wells with interests that vary from 4 to 25%. These wells are operated by Encal and are capable of 3,300 mcfd (net 267 mcfd). Production is obtained from the Baldonnel and Cadomin zones. The Oak area has an additional 10.61 bcf (net 0.86 bcf) of proven producing reserves. No further gas exploration or development is scheduled for this project.

Oil Production

OAK

Ramarro has interests in 15 producing oil wells varying from 4 to 20%. These wells produce from the Cecil zone of Triassic age. Total production capacity is 394 bopd (net 26 bopd). Proven producing reserves total 3.7 million bbls (net 316,000 bbls). The Cecil "I" Unit in which Ramarro has a 3.9966% interest was placed under waterflood in August 1998. When the effects of water injection begin to restore reservoir pressure, production is projected to increase 260%. This increase is expected in early 1999.

Oil Production — continued

WEBB

Production increases are expected at Webb in 1999 as unitization is nearing completion and plans to waterflood this Ramarro operated oil project are in an advanced stage. Based on an analogous offset waterflood project with a 10-year history, Ramarro's share of production is projected to double to 55 bopd in two years. The Company operates seven producing oil wells which produce medium gravity oil from the Cantuar sand. Ramarro's average working interest is 70.9%. It is anticipated that water injection could be initiated in May 1999. Depending on performance of the new waterflood, up to four additional wells may be drilled within two years. Recoverable reserves at Webb are estimated at 197,000 bbls (net 138,000 bbls) from existing wells.

Exploration

THE PRIMARY EXPLORATION thrust was at Orion in northeastern B.C. where a second discovery well was drilled to the Slave Point zone at 1950 meters. This well tested water from that zone but significant gas flows were obtained from the Jean Marie zone at 1400 meters. The Ramarro Orion well tested gas at rates varying from 200 to 700 mcfd during a non-stabilized flow test. This rate is similar to other vertical mud drilled wells in the play in areas that are productive. Ramarro has a 20% interest in this well plus the horizontal well which was drilled in March 1997 to test the Jean Marie formation on a second block of land in the Orion area. That well is standing cased and is capable of producing 750 mcfd. Ramarro owns a 10% interest after payout in these wells and in the balance of these lands.

The exploration play now requires an exploitation plan to achieve production from the Jean Marie zone. As the entire Orion play will require substantial time before obtaining cash flow from the investment, Ramarro and its partners have elected to farm out upcoming activities. Subsequent to year end, a third party agreed to perform certain work on the lands to earn an interest. One new well will be drilled during the 1998/99 drilling season by other partners on one small block of land in which Ramarro has an interest. Under the terms of the farm out, the farmee has the option to re-enter and perform a workover of the horizontal well drilled in 1997 by the Ramarro group. In addition, the farmee has the option to drill one well on each of the two blocks of land owned by Ramarro. If these activities are successful the play will be at the point where commercial production can proceed.

Ramarro has varying interests in 8,320 acres of partially developed land in the Oak Area of B.C. Early in the past year two of three wells that were drilled to test the Cadomin zone in the area were put on production. Net production rates averaged 185 mcfd in fiscal 1998. Ramarro's interest in these wells varies from 3.95% to 25.5%. No further drilling has been scheduled for this project at this time.

reserves and related value

As of October 1, 1998 Ramarro's in-house evaluation of its reserves included 16.32 bcf of natural gas valued at $5.99 million and 316 mbbls of oil valued at $2.01 million, both pre-tax using a 15% discount factor.

Proven Producing and Undeveloped Recoverable Oil and Gas Reserves as of October 1, 1998

	Gross Reserves*			Present Worth ($000's)			Cash Flow ($000)	
	Oil (mbbls)	Gas (bcf)	Undis-counted	10%	15%	20%	1999	Five Years
Cessford Area	–	8.45	10,550	4,623	3,353	2,546	548	3,461
Hatton	–	0.92	754	437	359	304	74	322
Hilda	–	5.98	4,142	2,103	1,653	1,360	286	1,339
Oak	176	0.85	5,173	2,687	2,059	1,693	315	1,778
Webb	140	–	1,760	812	613	486	84	472
Other	–	0.12	43	36	33	31	14	34
Total	316	16.32	22,422	10,698	8,070	6,420	1,321	7,406

*BEFORE ROYALTIES

Pricing assumptions used for this evaluation are summarized in the following table:

	Base Natural Gas Price ($/mcf)	Base Oil Price ($/bbl)
1998 (Q4 only)	2.30	15.00
1999	1.85	19.28
2000	1.90	21.02
2001	2.00	22.37
2002	2.15	23.61
Escalation per year thereafter	5%	3%

Net Asset Value

Proved Reserves at October 1, 1998 (discounted at 15% pretax)	$	8,009,000
Undeveloped land		250,000
Balance Sheet Adjustments (as at September 30, 1998)		
Working capital		(1,123,444)
Less: Convertible debentures		(330,000)
Net Asset Value Before Investments	$	6,805,556
Investment in Texada		987,669
Net Asset Value		7,793,225
Per Share*	$	0.494

* BASED ON 15,763,173 COMMON SHARES OUTSTANDING AT SEPTEMBER 30, 1998
COMPANY TAX POOLS TOTALLING $3,335,000.00 HAVE NOT BEEN INCLUDED IN THIS EVALUATION.

management's discussion and analysis

Revenue

Overall revenues improved 7.5% from $2,338,131 to $2,512,966. Production revenues, which comprised almost three quarters of total revenue, increased 14.9% due in large part to additional gas sales volumes. In fiscal 1998 a total of 924,733 mcf were sold for an average price of $1.86 compared to 823,945 mcf sold in 1997 for $1.78/mcf. A full year's production from the Oak property acquired in mid-1997 and from new wells at Cessford North accounted for most of the increased volumes. Good gains were also recorded at the Oak property for crude oil sales and volumes (19,382 versus 10,863 bbls), however, the average price slipped from $21.79 to $16.16/bbl.

Operating Expenses

Field production expenses increased from $667,929 to $825,461 due in large part to a full year's operation at the Oak property in northeastern British Columbia. Fiscal 1997 results included operating costs only from May 21 to September 30, 1997. In 1998, $89,000 of the additional operating costs were attributable to the other eight months of the year. The balance of the cost difference was due to new wells at Cessford North which were placed on production at the beginning of fiscal 1998 and to additional working interests acquired during the year.

Administration Expenses

In 1998, administration costs were $691,331, up 9.1% or $57,806 last year. Well over half of this increase pertained to employees and their related costs, while much of the balance represents acquisition costs of certain technical data subscriptions. Ramarro does not capitalize any general administrative cost related to exploration and development projects.

Interest and Bank Charges

Expenses in this category declined from $79,529 to $69,580 in the current year. In fiscal 1998 the Company had considerably lower costs related to the outstanding convertible debentures than in the prior year. Last year, for the period following the acquisition of Ripple Resources Ltd., there were two series of convertible debentures outstanding, with both issues accruing interest. The older series, issued by Ramarro Resources Inc. in 1987 and totalling $450,990, was all converted to common shares in September 1997. Only the new series - $330,000 of debentures - was outstanding in 1998 and earned interest at a rate of 9% annually compared to the 12% rate on the 1987 series. This savings was partially offset by the higher cost of greater temporary borrowings under the Company's line of credit during portions of fiscal 1998.

Depletion and Depreciation

Non-cash charges for depletion and depreciation totalled $792,654 compared to $542,945 in 1997. The most significant factor behind the increase was the full year of operation at the Oak property, and higher production volumes that are included in the depletion calculation. The allowance for future site restorations was $67,550, up from the $45,496 recorded in 1997; similar factors affecting depletion and depreciation were the principal reasons for the change in this category.

Income Taxes

No current taxes were recorded in either of the last two fiscal years as capital write-offs eliminated any taxable income. The decline in deferred income taxes from $148,676 to $74,180 reflects primarily the lower income before taxes during the current year. Alberta Royalty Tax Credits increased from $22,778 to $25,771 because of additional eligible production at Cessford North and the general improvement in natural gas prices.

Year 2000 Compliance

Many comments have appeared during the past concerning the potential problems related to preparing computers and other automated systems for the year 2000. In the past, many systems were designed to recognize dates using only the last two digits of the year. When the year 2000 arrives, systems that have not been converted to a four digit code, may not identify the year correctly and may cause failure. Presently, all Ramarro's software has been provided by third parties, whose products are used on a broad basis in industry in general and the petroleum business in particular. Suppliers of software systems that are currently non-compliant, have plans in place to provide upgrades for year 2000 compliance on a timely basis. Costs associated with the year 2000 compliance are being expensed as incurred but are not expected to have a material effect on the financial results of the Company.

management's report

The accompanying consolidated financial statements of Ramarro Resources Inc. were prepared by management in accordance with accounting principles generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Financial statements generally include estimates that are necessary when transactions affecting the current account period cannot be finalized with certainty until future periods. Based on careful judgments by management, such estimates have been properly reflected in the accompanying consolidated financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial purposes.

The external auditors conducted an independent examination of corporate and accounting records in accordance with generally accepted auditing standards to express their opinion on the financial statements. Their examination included a review and evaluation of Ramarro's system of internal control and included such tests and procedures as they considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review financial statements before they are presented to the Board of Directors for approval.

Wayne Sharp
President

B. John Schmidt
Vice President, Finance

auditor's report

To the Shareholders of Ramarro Resources Inc.

We have audited the consolidated balance sheets of Ramarro Resources Inc. (the "Corporation") as at September 30, 1998 and 1997 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 1998 and 1997, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles in Canada.

KPMG LLP

KPMG LLP
Chartered Accountants
Calgary, Canada
December 4, 1998

Consolidated Balance Sheet

AS AT SEPTEMBER 30	1998	1997
Assets		
Current		
Cash	**$ 76,603**	$ 182,758
Accounts receivable (Note 5)	**633,903**	1,007,509
	710,506	1,190,267
Petroleum and Natural Gas Properties (Note 2 and 5)	**5,576,945**	5,014,345
Investment (Note 3)	**474,604**	436,571
	$ 6,762,055	$ 6,641,183
Liabilities		
Current		
Accounts payable	**$ 1,833,950**	$ 1,788,651
Convertible Debentures (Note 6)	**330,000**	330,000
Provisions for Future Site Restoration	**271,129**	206,447
Deferred Income Taxes	**576,608**	502,428
	3,011,687	2,827,526
Shareholders' Equity		
Common Shares (Note 7)	**2,074,130**	2,155,400
Retained Earnings	**1,676,238**	1,658,257
	3,750,368	3,813,657
	$ 6,762,055	$ 6,641,183
Commitments (Note 12)	SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	
Contingency (Note 13)		

Consolidated Statement of Earnings & Retained Earnings

YEAR ENDED SEPTEMBER 30	1998	1997
Revenue	**$ 2,512,966**	$ 2,338,131
Expenses		
Operating	**825,461**	667,929
Administration	**691,331**	633,525
Interest and bank charges	**69,580**	79,529
Depletion and depreciation	**792,654**	542,945
Future site restorations	**67,550**	45,496
	2,446,576	1,969,424
Earnings Before Income Taxes	**66,390**	368,707
Income Taxes (Note 10)		
Deferred	**74,180**	148,676
Alberta royalty tax credit	**(25,771)**	(22,778)
	48,409	125,898
Net Earnings	**17,981**	242,809
Retained Earnings, Beginning of Year	**1,658,257**	1,422,236
Preference Dividends	**–**	(6,788)
Retained Earnings, End of Year	**$ 1,676,238**	$ 1,658,257
Earnings Per Share		
Basic	**$ 0.001**	$ 0.020
Fully diluted	**$ 0.001**	$ 0.019

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Changes in Financial Position

YEAR ENDED SEPTEMBER 30	1998	1997
Cash Provided by (Used in) Operations		
Net earnings	**$ 17,981**	$ 242,809
Depletion, depreciation and other net items not involving cash	**896,351**	716,423
	914,332	959,232
Investment		
Petroleum and natural gas properties	**(1,358,122)**	(1,526,490)
Changes in other working capital items – net	**418,905**	712,472
Acquisition of Ripple Resources Ltd.	**–**	(400,000)
Income tax effect of renounced tax deductions not involving cash	**–**	56,180
	(939,217)	(1,157,838)
	(24,885)	(198,606)
Financing		
Conversion of preferred shares	**–**	(96,978)
Conversion of convertible debentures	**–**	(450,990)
Common shares issued	**–**	964,968
Repayment of bank loan	**–**	(274,348)
Repurchase of common shares	**(81,270)**	–
Preferred dividends	**–**	(6,788)
Redemption of Ripple debentures	**–**	(340,000)
Issuance of convertible debentures	**–**	330,000
	(81,270)	125,864
Decrease In Cash	**(106,155)**	(72,742)
Cash at Beginning of Year	**182,758**	255,500
Cash at End of Year	**$ 76,603**	$ 182,758
Analysis of Other Working Capital Items		
Accounts receivable	**$ 373,606**	$ (274,903)
Accounts payable	**45,299**	1,052,222
Ripple working capital deficit	**–**	(64,847)
	$ 418,905	$ 712,472

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

notes to consolidated financial statements

YEAR ENDED SEPTEMBER 30

1. Accounting Policies

a) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Ripple Resources Ltd. Effective October 1, 1998, these two corporations amalgamated to form Ramarro Resources Inc.

b) PETROLEUM AND NATURAL GAS PROPERTIES

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses and costs of drilling and completion of both productive and non-productive wells. Proceeds from the disposition of properties are normally deducted from the full cost pool without recognition of gain or loss. When a significant portion of the property is sold, a gain or loss is recorded in the statement of earnings.

c) DEPRECIATION AND DEPLETION

Depreciation of lease and well equipment is computed on a straight line basis at a rate of 10 percent per annum. Depletion of the Company's interest in petroleum and natural gas properties is computed by the unit-of-production method based on estimates of proven recoverable reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon relative energy content.

d) JOINT VENTURES

All of the Company's activities are carried on jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

e) FUTURE SITE RESTORATION

Estimated future site restoration costs are provided for using the unit-of-production method based upon estimated proven reserves. Costs are estimated by the Company based upon current regulations, costs, technology and industry standards. Removal and site restoration expenditures will be charged to the accumulated provision as incurred.

f) INVESTMENTS

The Company follows the equity method of accounting for its investments in non-controlled corporations whereby an investment is initially recorded at cost with the carrying value adjusted thereafter for the Company's pro-rata share of earnings in the non-controlled corporation. Where an investment includes the purchase of flow through shares, the cost of the investment is reduced by the income tax effect of the renounced tax deductions.

g) MEASUREMENT UNCERTAINTY

The amounts recorded for depletion and depreciation of capital assets and the provision for future abandonment and site restoration costs are based on estimates. The ceiling test is based on such factors as estimated proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

2. Petroleum and Natural Gas Properties

The Company's investment in petroleum and natural gas properties is comprised of the following categories and costs:

	1998		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas properties	**$ 6,894,383**	**2,507,227**	**$ 4,387,156**
Lease and well equipment	**2,090,814**	**901,025**	**1,189,789**
	$ 8,985,197	**$ 3,408,252**	**$ 5,576,945**

	1997		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas properties	$ 5,895,430	$ 1,922,654	$ 3,972,776
Lease and well equipment	$ 1,734,513	692,944	1,041,569
	$ 7,629,943	$ 2,615,598	$ 5,014,345

3. Investments

The Company's investment in Texada Energy Ltd. is summarized in the following table:

	Number of Common Shares	Amount	Convertible Debentures
Balance, September 30, 1996	712,000	$ 346,657	$ 125,400
Redeemed during year	–	–	(125,400)
Purchased during year	125,400	125,400	–
Income tax effect of renounced tax deductions	–	(56,180)	–
Equity in income	–	20,694	–
Balance, September 30, 1997	837,400	$ 436,571	$ –
Equity in income	–	38,033	–
Balance, September 30, 1998	**837,400**	**$ 474,604**	**$ –**

The Company has invested a total of $753,400 in flow through shares of Texada Energy Ltd., the cost of which has been reduced by the income tax effect of the renounced tax deductions. At September 30, 1998 the Company held 837,400 common shares representing 28.3 percent of the 2,954,550 common shares outstanding.

4. Acquisition of Ripple Resources Ltd.

Effective May 21, 1997 the Company purchased all the issued and outstanding common shares of Ripple Resources Ltd. (Ripple) for consideration of $400,000 in common shares and accounted for the purchase using the purchase method. The Company's consolidated statements of earnings and changes in financial position include operating results of Ripple since the purchase date. The purchase price was allocated to net assets acquired based on their estimated fair values.

Property, plant and equipment	$ 1,106,070
Working capital deficit	(64,847)
Future site restoration liability	(26,875)
Convertible debentures	(340,000)
Bank debt	(274,348)
Net assets acquired	$ 400,000

Bank Loan

The Company has arranged a line of credit with a Canadian Chartered bank in the amount of $2,000,000. Any borrowing will bear interest at the Lender's prime rate plus 0.75 percent and will be secured by an assignment of certain of the Company's natural gas properties, an assignment of book debts and a floating charge debenture.

Convertible Debentures

The convertible debentures bear interest at a rate of nine percent and mature on January 31, 2002. Each debenture may be redeemed at par in whole or in part, at the option of the Company after May 31, 1999. Debentures may be converted into common shares of the Company at prices varying between $0.33 and $0.50 per share until maturity

Capital Stock

AUTHORIZED: The Company's capital consists of an unlimited number of Common voting shares and an unlimited number of Class A and B Preferred non-voting shares issuable in series.

ISSUED:	Preferred Shares		Common Shares	
	Number of Shares	Share Capital	Number of Shares	Share Capital
Balance, September 30, 1996	96,978	$ 96,978	10,976,633	$ 1,190,432
Issued for cash under stock option plan	–	–	90,000	17,000
Acquisition of Ripple Resources Ltd.	–	–	2,358,700	400,000
Conversion of debentures and preferred shares	(96,978)	(96,978)	2,739,840	547,968
Balance, September 30, 1997	–	–	16,165,173	2,155,400
Repurchase for cash under normal course issuer bid	–	–	(402,000)	(81,270)
Balance, September 30, 1998	**–**	**–**	**15,763,173**	**$2,074,130**

Management has established a plan for granting stock options to the directors, management and employees of the Corporation. At September 30, 1998, options covering 1,400,000 shares at prices ranging from $0.15 to $0.22 per share were outstanding which, if not exercised, will expire at various dates during the next five years.

Financial Instruments

Financial instruments of the Company consist mainly of cash, accounts receivable, accounts payable and accrued liabilities. As at September 30, 1998, there are no significant differences between the carrying amounts reported on the balance sheet and the fair value of such financial instruments.

9. Related Parties

In the year to September 30, 1998, the Company paid $156,000 ($156,000 in 1997) under a Management Services and Joint Participation Agreement to a company controlled by officers of the Company.

10. Income Tax

Income tax expense differs from the amount which would be obtained by applying the basic Canadian federal tax rates to the respective years' income before income taxes. The following table outlines the differences:

	1998	1997
Expected income tax expense at 44.8 percent	$ 29,743	$ 165,181
Crown royalties net of related credits	23,804	26,367
Resource allowance	(77,156)	(100,352)
Depletion on assets with no related tax base	36,739	31,596
Equity in non-taxable income of Texada Energy Ltd.	(17,039)	(9,271)
Other items – net	52,318	12,377
Provision for income taxes	$ 48,409	$ 125,898

The Company has approximately $3,850,000 of tax pools remaining to be written off against future years taxable income.

The Company uses the deferral method of accounting for income taxes. Deferred tax assets and liabilities are calculated using tax rates in effect in the period where differences arise.

11. Year 2000

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise is some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

12. Commitments

The Company entered into an agreement to lease office space for five years expiring July 31, 2003. Lease payments including operating costs and taxes are expected to be $79,000 per year over the term of the lease.

13. Contingency

The Company is a co-defendant in a legal action concerning sales commissions that would have been paid under a gas sales contract that terminated in May 1995, by mutual consent between the Company and the purchaser. The amount of damages claimed by the plaintiff is material to the Company; however, on the advice of its legal counsel, management believes the claim is without merit and has made no provision for the amount claimed.

YEAR ENDED SEPTEMBER 30	1998	RESTATED 1997	1996	1995	1994
Financial (ALL AMOUNTS IN $ EXCEPT OUTSTANDING SHARES)					
Revenue	**2,512,966**	2,338,131	1,734,389	1,863,660	2,013,160
Expenses					
Operating	**825,461**	667,929	558,989	458,155	431,971
Administration	**691,331**	633,525	578,843	541,241	504,035
Interest and bank charges	**69,580**	79,529	50,325	45,128	51,255
Depletion and depreciation	**792,654**	542,945	413,467	401,389	397,834
Future site restorations	**67,550**	45,496	62,684	47,165	48,120
	2,446,576	1,969,424	1,664,308	1,493,078	1,433,215
Earnings before income taxes	**66,390**	368,707	70,081	370,582	579,945
Income taxes	**48,409**	125,898	9,381	141,674	221,461
Net earnings	**17,981**	242,809	60,700	228,908	358,484
Earnings per share					
Basic	**0.001**	0.020	0.005	0.019	0.034
Fully diluted	**0.001**	0.019	0.006	0.017	0.028
Cash flow from operations	**914,332**	959,232	552,806	853,351	1,000,536
Per share	**0.057**	0.080	0.049	0.073	0.097
Shareholders' equity	**3,750,368**	3,813,657	2,709,646	2,756,019	2,523,179
Shares outstanding					
Preferred	**–**	–	96,978	152,978	152,978
Common – at year end	**15,763,173**	16,165,173	10,976,633	11,255,133	10,889,633
– weighted average	**15,965,713**	11,913,128	11,095,133	11,278,800	10,190,395
Operations					
Natural gas production (mmcf)	**924.7**	823.9	740.0	738.1	674.4
Mmcfd	**2.53**	2.43	2.02	2.02	1.85
Average $/mcf	**1.86**	1.78	1.392	1.210	1.932
Oil production (bbls)	**19,382**	10,863	6,889	7,730	4,908
Average $/bbl	**16.16**	21.79	20.56	19.58	17.40
Total boed	**306**	290	221	223	198

Five Year Review

corporate information

Annual Meeting

The Annual General Meeting of the Shareholders will be held in the McDougall Room at The 400 Club, 710 – 4th Avenue SW, Calgary, Alberta on Tuesday, March 9, 1999 at 3.30 pm (local time).

Abbreviations	
mcf	thousand cubic feet
mmcfd	million cubic feet per day
mcfd	thousand cubic feet per day
bcf	billion cubic feet
mmcf	million cubic feet
bbl	barrel
boe	barrels of equivalent oil
mbbls	thousand barrels
boed	barrels of oil equivalent per day
	(10 mcf of natural gas to 1 barrel of oil)

Conversion Factor
Cubic meters of gas to cubic feet x 35.49373
Cubic meters of oil to barrels x 6.29287

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Calgary, Alberta

Antony N. Edgington
Calgary, Alberta

Garth M. Farr*
Calgary, Alberta

G. Donald Meades
Calgary, Alberta

Deane G. H. Ross
Calgary, Alberta

Wayne R. Sharp*
Calgary, Alberta

* Member of Audit Committee

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Wayne R. Sharp
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Solicitors

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Bankers

The Bank of Nova Scotia
Calgary, Alberta

Stock Exchange Listing

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